

Office of Chief Counsel
Internal Revenue Service
memorandum

CC:LM:CTM:SF:POSTU-149783-01
AJKim

date: February 26, 2002

to: Internal Revenue Service
Large and Mid-Size Business Division
450 Golden Gate
San Francisco, C.A. 94102
Attn: Victoria Rex, Acting Team Manager

from: Large and Mid-Size Business Area Counsel - San Francisco

subject:

████████████████████
Research and Experimental Expenditures (I.R.C. § 174)
Credit for Increasing Research Activities (I.R.C. § 41)
Taxable Years Ended June 30, ██████ through June 30, ██████
U.I.L. Nos. 41.51-01, 174.06-00, 7121.00-00

DISCLOSURE STATEMENT

This advice constitutes return information subject to I.R.C. § 6103. This advice contains confidential information subject to attorney-client and deliberative process privileges and if prepared in contemplation of litigation, subject to the attorney work product privilege. Accordingly, the Examination or Appeals recipient of this document may provide it only to those persons whose official tax administration duties with respect to this case require such disclosure. In no event may this document be provided to Examination, Appeals, or other persons beyond those specifically indicated in this statement. This advice may not be disclosed to taxpayers or their representatives.

This advice is not binding on Examination or Appeals and is not a final case determination. Such advice is advisory and does not resolve Service position on an issue or provide the basis for closing a case. The determination of the Service in the case is to be made through the exercise of the independent judgment of the office with jurisdiction over the case.

This memorandum is in response to your request for our assistance in drafting a closing agreement setting forth the agreed sampling methodology to determine the correct amount of wages, supplies and contract research expenses qualifying for research credit of ██████████ Corporation ("██████████") with respect to fiscal years ended June 30, ██████ through June 30,

██████, inclusive.

Based on our review of your informal sampling agreement dated ██████ with the taxpayer which sets forth the audit methodology for the research credit issue, we have prepared a draft closing agreement for your review. During our review, we received input from computer audit specialist ██████ who provided revisions to the sampling methodology that have been incorporated into the draft closing agreement. Additionally, we received Exhibits ██████, ██████, ██████, ██████ and ██████ from revenue agent ██████. These exhibits are incorporated by reference in the draft closing agreement.

This advice relies on facts provided by you to our office. If you find that any facts are incorrect, please advise us immediately so that we may modify and correct this advice. This advice is subject to 10-day post review by the National Office. CCDM 35.3.19.4. Accordingly, we request that you do not act on this advice until we have advised you of the National Office's comments, if any, concerning this advice.

Please note that the final, approved version of this closing agreement must be presented to the Taxpayer with the caveat that the Commissioner will not be able to execute the agreement until after the Joint Committee on Taxation has reviewed this case. I.R.C. § 6405(a).

Should you have any questions, please contact Anthony J. Kim at (415) 744-9217 ext. 144.

James W. Clark
Area Counsel

By: _____/s/_____
Anthony J. Kim
Attorney (LMSB)

Attachments: As stated